

WATER/ICRJ/FLC/KKL/RHG**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION
AUDIT AND COMPLIANCE BRANCH****RESOLUTION W-4313
December 11, 2001****R E S O L U T I O N****RESOLUTION W-4313. WATERTEK, INC. (WATERTEK),
OAK HILLS DISTRICT (OHD). ORDER AUTHORIZING
AN INTERIM GENERAL RATE INCREASE, SUBJECT TO
REFUND, PRODUCING ADDITIONAL GROSS ANNUAL
REVENUE OF \$65,936 (59.9%).****By Draft Advice Letter Filed on June 11, 2001.**

SUMMARY

This Resolution grants Watertek, a sewer utility, an interim increase in gross annual revenue of \$65,936 for its OHD, subject to refund. The increase will provide Watertek with no rate of return on its rate base, but with sufficient monies to pay for current cash operating expenses in this district.

By Draft Advice Letter filed June 11, 2001, Watertek requests authority under Section VI of General Order (G.O.) No. 96-A and Section 454 of the Public Utilities (P.U.) Code to increase rates in the OHD by \$134,453 or 116.04%, in the year 2001.

Six letters were received from customers of the OHD objecting to the proposed interim rate increase.

BACKGROUND

Watertek provides sewer service to the subdivisions of Oak Hills, Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County. There are approximately 448 flat rate customers in the Oak Hills District. The rates for the Indian Springs and Spreckels Districts are not included or affected by this filing. Watertek also provides water service to customers in its Grandview District and owns the Metropolitan Water Company.

Pursuant to its 2000 Annual Report, Watertek reported that its OHD generated total operating revenues of \$110,135, with a net loss of \$17,432. In view of the negative cash flow problem, the owner of Watertek has absorbed costs that normally would be included in rates. Watertek's filing indicates that system repairs to the existing sewer system and manpower support are likewise needed to continue operations and service.

OHD's current rate became effective February 2, 1998 pursuant to Decision (D.) 92-03-093.

NOTICE AND PROTESTS

By letter dated August 16, 2001, Watertek notified the OHD customers of its requested general rate increase in gross annual revenue of \$134,453, or 116.04% and the proposed interim rate increase (subject to refund), which is part of the general rate case. A second notice was sent to these customers on October 5, 2001, showing a revised interim rate increase amount, pending final resolution of the permanent rate increase. The Water Division received six letters from customers opposing the proposed interim rate increase. One letter further opposed the requested general rate increase of 116.04%.

Water Division has replied to the letters individually.

Water Division will be holding an informal public meeting to discuss Watertek's general rate increase request and to receive customer input.

DISCUSSION

As part of the Risk Order Instituting Investigation (Risk OII, I.90-11-033), the Commission, in D.92-03-093, adopted new policies in response to the growing economic crisis that threatened the small (Class C and Class D) investor-owned water utility's ability to deliver clean, safe drinking water. Through D.92-03-093, the Commission determined that traditional ratemaking policies which were satisfactory for large water utilities were only sporadically successful in coping with the problems of the smaller Class C and Class D water utilities. Some of the policies adopted included simplified rate filings based on the Consumer Price Index, a new method to recover unanticipated repair costs deemed critical to continued service, an increased range of rate of return, and a number of streamlined procedures to simplify and speed regulatory review in order to encourage small water utilities to see Commission review of their operations as part of a more substantial adjustment in rates.

The Commission's on-going concern regarding the processing time for small water utility's transactions resulted in the creation of the Service Guarantee Plan for Small Water Companies (Plan) issued February 1996. The Plan provides an almost immediate simple mechanism to process an interim rate increase, usually within 45 days of filing. The interim increase, subject to refund, is based on a cash flow analysis. The analysis

determines how much the utility needs to operate and to pay bills, including debt service. This Resolution implements this mechanism for Watertek's OHD.

In addition to Watertek's operating loss in the OHD of \$17,432 for the year 2000, the Water Division after its investigation revealed that Watertek had not fully accounted its expenses. It was then determined that gross annual revenues would need to be increased by \$65,936, or 59.9%, in order for Watertek to meet its actual cash flow requirements for the year 2001.

In order to respond to Watertek's negative cash flow problem, the Water Division recommends the proposed interim rate shown below be granted, subject to refund, pending the final result of the staff investigation needed to set permanent rates. The proposed interim rate follows:

Oak Hills District

	Per Quarter	
	<u>Present</u>	<u>Interim Proposed</u>
For each residential and small commercial service connection	\$64.66	\$101.44

The Commission mailed the draft resolution in this matter to the parties in accordance with Public Utilities Code 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure. Parties filed comments on _____, and filed reply comments on _____.

FINDINGS

1. The interim rates recommended by the Water Division (Appendix A) are reasonable and should be adopted.
2. The rate increase authorized herein should be subject to refund pending the completion of the staff investigation of Watertek's general rate increase request.
3. There arecomments filed on_____.

THEREFORE, IT IS ORDERED THAT:

1. Watertek, Inc. is authorized to file an advice letter adopting the revised Schedule No. 2, Flat-Rate Service, attached to this Resolution as Appendix A, and to concurrently cancel its presently effective rate schedule. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall not be earlier than five days after the date of its filing.
2. The rate increase authorized herein is subject to refund pending final resolution of Watertek, Inc. Oak Hills District permanent rate increase request.
3. The Advice Letter and tariff sheets shall be marked to show that they were authorized by Resolution W-4313.
4. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 11, 2001; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

APPENDIX A**Schedule No. 2****FLAT-RATE SERVICE****APPLICABILITY**

Applicable to all flat-rate service.

TERRITORY

Subdivisions of Oak Hills and Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County.

RATES

	<u>Per Quarter</u>		<u>Per Month</u>
	<u>Oak Hills</u>	<u>Spreckels</u>	<u>Indian Springs</u>
For each residential and small commercial service connection	\$101.44 (I)	\$107.00	\$44.19
For each service connection of a school		\$160.00	
For each service connection of a commercial establishment with 4 or more employees		\$214.00	
For each industrial service connection		\$641.00	

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. Spreckels customers may remit quarterly bills in three equal installments on the first day of the month.